

CHARITON MUNICIPAL WATERWORKS  
CHARITON, IOWA

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENT  
SUPPLEMENTARY AND OTHER INFORMATION  
SCHEDULE OF FINDINGS

June 30, 2012

Peak & Co., LLP  
Certified Public Accountants  
1370 NW 114<sup>th</sup> St., Suite 205  
Clive, IA 50325

## Table of Contents

	<u>Page</u>
Officials	3
Independent Auditor's Report	5-6
Management's Discussion and Analysis	7-9
Financial Statement:	<u>Exhibit</u>
Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets	A 11
Notes to Financial Statement	12-16
Other Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis)	18
Notes to Other Information - Budgetary Reporting	19
Supplementary Information:	<u>Schedule</u>
Combining Schedule of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets - Enterprise Fund Accounts	1 21-23
Schedule of Indebtedness	2 24
Bond Maturities	3 25
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of a Financial Statement Performed in Accordance with <u>Government Auditing Standards</u>	26-27
Schedule of Findings	28-31

# CHARITON MUNICIPAL WATERWORKS

## Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before, January, 2012)		
Roger Bingham	Chairman	December 31, 2011
Shelly Lenzine	Vice-Chairman	December 31, 2013
George Holder	Secretary	December 31, 2015
Evelyn Hull *	Trustee	December 31, 2016
Bob Stump **	Truster	December 31, 2014
Bruce Hamersley	Superintendent	Indefinite
Ruth A. Ryun	Treasurer	Indefinite
(After, January, 2012)		
Roger Bingham	Chairman	December 31, 2017
Shelly Lenzine	Vice-Chairman	December 31, 2013
Evelyn Hull	Secretary	December 31, 2016
George Holder	Trustee	December 31, 2015
Bob Stump	Truster	December 31, 2014
Bruce Hamersley	Superintendent	Indefinite
Ruth A. Ryun	Treasurer	Indefinite

\* - Appointed on November 21, 2011, pursuant to an increase in the board from three members to five members pursuant to City ordinance.

\*\* - Appointed on December 19, 2011, pursuant to an increase in the board from three members to five members pursuant to City ordinance.

## Chariton Municipal Waterworks

PEAK & CO., LLP  
CERTIFIED PUBLIC ACCOUNTANTS  
1370 NW 114<sup>TH</sup> ST., SUITE 205  
CLIVE, IA 50325  
  
(515) 277-3077

Independent Auditor's Report

To the Board of Trustees of the  
Chariton Municipal Waterworks:

We have audited the accompanying financial statement of the Chariton Municipal Waterworks, Chariton, Iowa, as of and for the year ended June 30, 2012. This financial statement is the responsibility of Waterworks' officials. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.


As described in Note 1, this financial statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as discussed in Note 1, the financial statement of the Chariton Municipal Waterworks is intended to present only the results of the transactions of that portion of the financial reporting entity of the City of Chariton that is attributable to the transactions of the Waterworks.

In our opinion, the aforementioned financial statement presents fairly, in all material respects, the cash basis financial position of the Chariton Municipal Waterworks as of June 30, 2012, and the changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated February 18, 2013, on our consideration of the Chariton Municipal Waterworks internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statement that collectively comprise Chariton Municipal Waterworks basic financial statement. The supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in our audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statement taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the financial statement that collectively comprise Chariton Municipal Waterworks basic financial statement. Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 9 and pages 18 through 19 are presented for purposes of additional analysis and are not a required part of the basic financial statement. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statement, and accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in black ink that reads "Peak & Co., LLP". The signature is written in a cursive, flowing style.

Peak & Co., LLP  
Certified Public Accountants

February 18, 2013

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Chariton Municipal Waterworks (Waterworks) provides this Management's Discussion and Analysis of its financial statement. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the Waterworks financial statement, which follows.

### **2012 FINANCIAL HIGHLIGHTS**

Receipts of the Waterworks increased 6%, or approximately \$116,000, from fiscal year 2011 to fiscal year 2012.

Disbursements increased 6%, or approximately \$110,000, from fiscal year 2011 to fiscal year 2012.

The Waterworks total cash basis net assets decreased 11%, or approximately \$116,000, from June 30, 2011 to June 30, 2012.

The increase in receipts is due primarily to sewer rate increases. The significant increase in disbursements is due to the Waterworks disbursing the sewer fees to the City. All sewer fees collected are disbursed to the City, as the City is responsible for the operation of the sewer system.

### **USING THIS ANNUAL REPORT**

The Chariton Municipal Waterworks has elected to present its financial statement on the cash basis of accounting. The cash basis of accounting is a basis of accounting other than U.S. generally accepted accounting principles. Basis of accounting refers to when financial events are recorded, such as timing for recognizing revenues, expenses and the related assets and liabilities. Under the Chariton Municipal Waterworks' cash basis of accounting, revenues and expenses and the related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of this cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

The annual report is presented in a format consistent with the presentation of Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Chariton Municipal Waterworks' cash basis of accounting.

This discussion and analysis are intended to serve as an introduction to the Chariton Municipal Waterworks' financial statement. The annual report consists of a financial statement and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Waterworks' financial activities.

The Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets presents information on the Chariton Municipal Waterworks' receipts and disbursements and whether the Waterworks' cash basis financial position has improved or deteriorated as a result of the year's activities.

The Notes to Financial Statement provide additional information essential to a full understanding of the data provided in the financial statement.

Other Information further explains and supports the financial statements with a comparison of the Waterworks' budget for the year.

Supplementary Information provides detailed information about the individual Enterprise Fund Accounts. In addition, the Schedule of Indebtedness provides details of the Waterworks' debt at June 30, 2012.

## FINANCIAL ANALYSIS OF THE CHARITON MUNICIPAL WATERWORKS

### *Statement of Cash Receipts, Disbursements and Changes in Cash Basis Net Assets*

The purpose of the statement is to present the receipts received by the Chariton Municipal Waterworks and the disbursements paid by the Waterworks, both operating and non-operating. The statement also presents a fiscal snapshot of the Waterworks' cash balances at year end. Over time, readers of the financial statement are able to determine the Chariton Municipal Waterworks' financial position by analyzing the increase and decrease in cash basis net assets.

Receipts include metered and bulk water sales, fees for upkeep and/or upgrade of individual service lines, water turn on/off fees, rent for space on the water tower, meter fees, taps and miscellaneous fees. The City of Chariton pays the Chariton Municipal Waterworks contract fees to include sewer charges on the water bill and costs involved in preparing the billing, i.e. meter reading for sewer rates, data entry of meter reads, sales tax return preparation and payment. A summary of cash receipts, disbursements and changes in cash basis net assets for the years ended June 30, 2012 and June 30, 2011 are presented below:

Changes in Cash Basis Net Assets		
	Year ended June 30,	
	2012	2011
<b>Receipts:</b>		
Use of money and property	\$ 13,673	\$ 16,062
Charges for service	1,226,258	1,217,489
Miscellaneous	30,777	34,850
Sewer rental collections	677,964	564,728
Total receipts	1,948,672	1,833,129
<b>Disbursements</b>		
Plant operation and maintenance	310,048	271,776
Distribution expenses	252,410	241,977
Accounting and collection	169,736	164,286
Administration and other expenses	204,013	205,634
Capital improvements	44,803	97,442
Sewer rental disbursed to City	678,054	564,728
Debt service:		
Principal paid	162,000	162,000
Interest and trustee fees paid	41,785	44,863
Capital projects	201,942	202,181
Total disbursements	2,064,791	1,954,887
Net change in cash basis net assets	(116,119)	(121,758)
Cash basis net assets beginning of year	1,007,139	1,128,897
Cash basis net assets end of year	\$ 891,020	\$ 1,007,139



The smaller portions of the Waterworks' net assets (28%) are restricted for the repayment of revenue bonds issued, customer water deposits, and unspent revenue bond proceeds. The remaining net assets (72%) are unrestricted net assets available for use in routine operations of the plant, distribution and administrative areas of the Waterworks and for capital improvements to the plant and distribution areas. State and federal laws and regulations require the Chariton Municipal Waterworks to perform specific maintenance and monitoring functions in the collection and treatment of water sources before final distribution.

## **BUDGETARY HIGHLIGHTS**

The Chariton Municipal Waterworks prepares a budget on the cash basis of accounting and submits it to the City of Chariton. During the year, there were no budget amendments.

## **DEBT ADMINISTRATION**

At June 30, 2012, the Waterworks had \$1,294,000 in revenue bonds outstanding, compared to \$1,456,000 last year.

## **ECONOMIC FACTORS**

Chariton Municipal Waterworks appointed officials considered many factors when setting the fiscal year 2013 budget, including water main replacements, upkeep of current mains, plant and distribution improvements, and fees that will be charged. Current economic conditions beyond the Chariton Municipal Waterworks' Trustees control play a significant role in the daily operations of the water plant and distribution services. These conditions include, but are not limited to:

- The need to constantly maintain facilities, lakes, vehicles and machinery.
- The need to comply with federal and state regulations for the production of water and lake protection requirements.
- The need to maintain up-to-date technology at a reasonable cost.
- The fluctuation of the cost of the chemicals and energy used to produce quality water.

The current drought conditions present a challenge for the Waterworks, both in terms of the adequacy of, and the quality of the water supply.

## **CONTACTING THE CHARITON MUNICIPAL WATERWORKS FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Waterworks finances and to show the Waterworks accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Waterworks Superintendent, 101 Albia Road, Box 866, Chariton, IA 50049.

## Financial Statement

CHARITON MUNICIPAL WATERWORKS

Exhibit A

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH  
BASIS NET ASSETS

Year ended June 30, 2012

	Enterprise Fund Water
Operating receipts:	
Charges for service	\$ 1,226,258
Miscellaneous	30,777
Total operating receipts	<u>1,257,035</u>
Operating disbursements:	
Business type activities	<u>981,010</u>
Total operating disbursements	<u>981,010</u>
Excess of operating receipts over operating disbursements	<u>276,025</u>
Non-operating receipts (disbursements):	
Interest on investments	4,213
Rent	9,460
Sewer rental and storm sewer collections	677,964
Sewer rental and storm sewer fee disbursed to City	(678,054)
Debt service	(203,785)
Capital projects	(201,942)
Net non-operating receipts (disbursements)	<u>(392,144)</u>
Change in cash basis net assets	(116,119)
Cash basis net assets beginning of year	<u>1,007,139</u>
Cash basis net assets end of year	<u><u>\$ 891,020</u></u>
<b>Cash Basis Net Assets</b>	
Restricted for:	
Customer water deposits	\$ 95,092
Bond principal and interest payments	17,085
Bond reserve	108,500
Unspent bond proceeds	27,070
Total restricted net assets	<u>247,747</u>
Unrestricted	<u>643,273</u>
Total cash basis net assets	<u><u>\$ 891,020</u></u>

See notes to financial statement.

# CHARITON MUNICIPAL WATERWORKS

## NOTES TO FINANCIAL STATEMENT

June 30, 2012

### Note 1. Summary of Significant Accounting Policies

#### A. Reporting Entity

The Chariton Municipal Waterworks is a component unit of the City of Chariton, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Waterworks is governed by a five-member board of trustees appointed by the Mayor, subject to the approval of the City Council, which exercises oversight responsibility under this criteria.

#### B. Basis of Presentation

The accounts of the Waterworks are organized as an Enterprise Fund. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

Enterprise Funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an Enterprise Fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

#### C. Basis of Accounting

The Chariton Municipal Waterworks maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Waterworks is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statement does not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

#### D. Restricted Assets and Net Assets

Funds set aside for customer water deposits, bond principal and interest payments, bond reserve and unspent bond proceeds are classified as restricted.

#### E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

### Note 2. Cash and Pooled Investments

The Waterworks deposits at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Waterworks is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Water Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

The Waterworks had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

Note 2. Cash and Pooled Investments (continued)

Interest rate risk – The Waterworks investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Waterworks.

Note 3. Water Revenue Bonds Payable

Annual debt service requirements to maturity for the water revenue bonds payable are as follows:

Year Ending June 30,	Water Revenue Bonds		Water Revenue Improvement and Refunding Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 38,000	\$ 17,520	\$ 130,000	\$ 19,415	\$ 168,000	\$ 36,935
2014	38,000	16,380	110,000	16,815	148,000	33,195
2015	39,000	15,240	110,000	14,285	149,000	29,525
2016	40,000	14,070	115,000	11,425	155,000	25,495
2017	40,000	12,870	120,000	8,090	160,000	20,960
2018	41,000	11,670	125,000	4,250	166,000	15,920
2019	41,000	10,440	-	-	41,000	10,440
2020	42,000	9,210	-	-	42,000	9,210
2021	43,000	7,950	-	-	43,000	7,950
2022	43,000	6,660	-	-	43,000	6,660
2023	44,000	5,370	-	-	44,000	5,370
2024	45,000	4,050	-	-	45,000	4,050
2025	45,000	2,700	-	-	45,000	2,700
2026	45,000	1,350	-	-	45,000	1,350
	<u>\$ 584,000</u>	<u>\$ 135,480</u>	<u>\$ 710,000</u>	<u>\$ 74,280</u>	<u>\$ 1,294,000</u>	<u>\$ 209,760</u>

Water Revenue Bonds

On August 7, 2006, the Waterworks entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and the Wells Fargo Bank Iowa, N.A. (Trustee) for the issuance of \$800,000 of water revenue bonds with interest at 3.00% per annum. The agreement also requires the Waterworks to annually pay .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384.24A and 384.83 of the Code of Iowa for the purpose of paying the costs of construction, improvement and extensions to the municipal waterworks system. The funds were drawn down by the Waterworks from the Trustee upon request to reimburse the Waterworks for costs as they were incurred. An initiation fee of 1% of the authorized borrowing for the water revenue bonds was charged by Wells Fargo Bank Iowa, N.A. The total initiation fee was withheld in fiscal year 2007 by the bank from the first proceeds of the water revenue bonds drawn by the Waterworks.

The resolutions providing for the issuance of the water revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the Waterworks and the bond holders hold a lien on the future earnings of the funds.
- (b) The Board shall establish a rate to be charged to customers in order to produce gross revenues at least sufficient to pay expenses of the operation and maintenance of the Utility, and to leave a balance of net revenues equal to at least 110% of the principal and interest of all outstanding bonds and notes due in the fiscal year.

Note 3. Water Revenue Bonds Payable (continued)

- (c) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of installment principal due shall be made to a water revenue bond and interest sinking account. Monies in this fund are to be used solely for the purpose of paying principal and interest on the bonds.
- (d) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to pay for extraordinary repairs or replacements to the water system, may be used to pay or redeem any bonds, and then can be used for any lawful purpose.

Water Revenue Improvement and Refunding Bonds

The resolutions providing for the issuance of the water revenue improvement and refunding bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the Waterworks and the bond holders hold a lien on the future earnings of the funds.
- (b) A reserve fund shall be established and maintained in the amount of \$108,500.
- (c) The Board shall establish a rate to be charged to customers in order to produce gross revenues at least sufficient to pay expenses of the operation and maintenance of the Utility, and to leave a balance of net revenues equal to at least 125% of the principal and interest of all outstanding bonds and notes due in the fiscal year.
- (d) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of installment principal due shall be made to a water revenue bond and interest sinking account. Monies in this fund are to be used solely for the purpose of paying principal and interest on the bonds.
- (e) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to pay for extraordinary repairs or replacements to the water system, may be used to pay or redeem any bonds, and then can be used for any lawful purpose.

The Waterworks has pledged future water customer receipts, net of specified operating disbursements, to repay \$800,000 in water revenue bonds issued in 2006, and \$1,085,000 in water revenue improvement and refunding bonds issued in 2009. Proceeds from the bonds provided financing for the construction of water main replacements, and to refund an older debt issue. The bonds are payable solely from water customer net receipts and are payable through 2026. Annual principal and interest payments on the bonds are expected to require less than 74 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$1,503,760. For the current year, principal and interest paid and total customer net receipts were \$202,232 and \$276,025, respectively.

Note 4. Pension and Retirement Benefits

The Waterworks contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 5.38% of their annual covered salary and the Waterworks is required to contribute 8.07% of covered salary. Contribution requirements are established by State statute. The Waterworks' contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$27,793, \$22,155 and \$20,752, respectively, equal to the required contributions for each year.

Note 5. Other Postemployment Benefits (OPEB)

Plan Description – The City of Chariton operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. The Waterworks employees are part of the City of Chariton's insurance policy. The City bills the Waterworks for their share of the health benefit plan costs. There are 8 active and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with United Healthcare. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the Waterworks. The Waterworks currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the Waterworks and plan members are \$549.84 for single coverage, \$1,142.06 for employee/spouse coverage, and \$1,033.30 for employee/children coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2012, the Waterworks contributed \$89,749 and plan members eligible for benefits contributed \$12,697 to the plan.

Note 6. Compensated Absences

Waterworks' employees accumulate a limited amount of earned but unused vacation and compensatory leave hours for subsequent use of or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Waterworks until used or paid. The Waterworks' approximate liability for earned vacation and compensatory leave termination payments payable to employees at June 30, 2012 is \$21,566. The liability has been computed based on rates of pay in effect at June 30, 2012.

The Waterworks policy allows employees who retire at age 55 or older to receive pay for unused sick leave, up to a maximum of 960 hours. The hourly rate of pay used for the payment of unused sick leave would be the hourly pay in effect at the date of retirement. Currently, only one Waterworks employee is age 55 or older. However, all employees are eligible for this benefit if they retire from the Waterworks at age 55 or older, and have unused sick leave hours on the date of retirement. Based on rates of pay in effect at June 30, 2012, the maximum liability to the Waterworks is \$97,735 at June 30, 2012.

Note 7. Lease Agreements

The City is leasing antenna space on the water tower to USCOC of Iowa RSA #1, Inc. (tenant) for \$700 per month. The Waterworks and the City have signed an additional agreement which provides that the City and Waterworks will each receive one-half of the lease payments in relation to this lease. The tenant pays the City the entire lease payment, and then the City reimburses the Waterworks for one-half of this amount. The initial term of the lease began in April, 2009. The Waterworks received \$4,200 from the City in relation to this lease in fiscal year 2012, and is scheduled to receive \$350 per month from the City in relation to this lease until April, 2014, with five additional (5) year renewal options. As long as this lease is in effect, after every five years, the base rent for this lease will be increased by 12% over the previous year's base rent. Unless the tenant decides to terminate the lease, the City has to continue to lease the antenna space to the tenant until fiscal year 2039.

The Waterworks is leasing antenna space on the water tower to Keyon Corporation (tenant). The initial term of the lease began in March, 2005. The Waterworks received \$5,260 from this lease in fiscal year 2012, and is scheduled to receive \$360 per month from this lease until December, 2015, with an additional (5) year renewal option. At the next renewal option, the Waterworks is scheduled to receive \$432 per month from this lease. Unless the tenant decides to terminate the lease, the City has to continue to lease the antenna space to the tenant until December, 2020.

Note 8. Related Party Transactions

The Waterworks had business transactions between the Waterworks and Waterworks officials totaling \$4,505 during the year ended June 30, 2012.

Note 9. Risk Management

The Chariton Municipal Waterworks is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Waterworks assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 10. Contingency

The Waterworks participates in Federal and State grant/loan programs. These programs are subject to program compliance audits by the grantors or their representatives. Entitlement to these resources are generally conditional upon compliance with the terms and conditions of grant and loan agreements and applicable federal and state regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal or state audit may become a liability of the Waterworks. The Waterworks management believes such revisions or disallowances, if any, will not be material to the Waterworks.

Note 11. Subsequent Events

The Waterworks accepted a bid for water main repair in the fall of 2012. The total bid amount was approximately \$50,000. It is anticipated that the water main repair will take place in the spring of 2013. The Waterworks intends to pay for this cost from existing cash reserves.

In January, 2013, the Waterworks received an approximate \$286,000 settlement from a class action lawsuit. The Waterworks intends to use these funds for major capital projects.

The Waterworks has evaluated subsequent events through February 18, 2013, which is the date that the financial statements were available to be issued.



## Other Information

CHARITON MUNICIPAL WATERWORKS  
BUDGETARY COMPARISON SCHEDULE  
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -  
BUDGET AND ACTUAL (CASH BASIS)

OTHER INFORMATION

Year ended June 30, 2012

	Actual	Budgeted Amounts Original and Final	Final to Net Variance
Receipts:			
Use of money and property	\$ 13,673	\$ 9,800	\$ 3,873
Charges for service	1,904,222	2,134,450	(230,228)
Miscellaneous	30,777	17,250	13,527
Total receipts	1,948,672	2,161,500	(212,828)
Disbursements:			
Business type activities	2,064,791	2,161,500	96,709
Change in cash basis net assets	(116,119)	-	(116,119)
Cash basis net assets beginning of year	1,007,139	-	1,007,139
Cash basis net assets end of year	\$ 891,020	\$ -	\$ 891,020

See accompanying independent auditor's report.

## CHARITON MUNICIPAL WATERWORKS

### NOTES TO OTHER INFORMATION – BUDGETARY REPORTING

June 30, 2012

The Chariton Municipal Waterworks prepares a budget on the cash basis of accounting and submits it to the City Council. In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon classes of disbursements, known as functions, not by fund. The Waterworks' disbursements are budgeted in the business type activities function. There were no budget amendments for the Waterworks during the year ended June 30, 2012.

During the year ended June 30, 2012, disbursements did not exceed the amounts budgeted.

## Supplementary Information

CHARITON MUNICIPAL WATERWORKS

Schedule 1

COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BASIS NET ASSETS  
ENTERPRISE FUND ACCOUNTS

Year ended June 30, 2012

	General	Customer Deposit	Debt Service	Improve- ment	Bond	Total
<b>OPERATING RECEIPTS:</b>						
Charge for service -						
Sale of water to meter customers	\$1,180,033	\$ -	\$ -	\$ -	\$ -	\$1,180,033
Sales of water - tank service	6,608	-	-	-	-	6,608
Meter fee	24,238	-	-	-	-	24,238
Collection fee from City	12,000	-	-	-	-	12,000
Sale of supplies and labor	3,379	-	-	-	-	3,379
	<u>1,226,258</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,226,258</u>
Miscellaneous -						
Refunds and reimbursements	18,432	-	-	-	-	18,432
Customer deposits	-	10,550	-	-	-	10,550
Miscellaneous	1,795	-	-	-	-	1,795
	<u>20,227</u>	<u>10,550</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,777</u>
Total operating receipts	<u>1,246,485</u>	<u>10,550</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,257,035</u>
<b>OPERATING DISBURSEMENTS:</b>						
Business type activities -						
Water -						
Plant operation and maintenance -						
Salaries	135,102	-	-	-	-	135,102
Power and propane	46,242	-	-	-	-	46,242
Chemicals	105,157	-	-	-	-	105,157
Supplies	7,850	-	-	-	-	7,850
Telephone	1,905	-	-	-	-	1,905
Security cameras	948	-	-	-	-	948
Miscellaneous and safety	8,035	-	-	-	-	8,035
Maintenance material	3,702	-	-	-	-	3,702
Maintenance labor	1,107	-	-	-	-	1,107
	<u>310,048</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>310,048</u>
Distribution expenses -						
Salaries	122,418	-	-	-	-	122,418
Vehicle expense	25,038	-	-	-	-	25,038
Insurance	43,894	-	-	-	-	43,894
Supplies	5,191	-	-	-	-	5,191
Utilities	11,089	-	-	-	-	11,089
Telephone	2,355	-	-	-	-	2,355
Miscellaneous and safety	2,131	-	-	-	-	2,131
Maintenance material	34,751	-	-	-	-	34,751
Maintenance labor	5,543	-	-	-	-	5,543
	<u>252,410</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>252,410</u>

CHARITON MUNICIPAL WATERWORKS

Schedule 1 (continued)

COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BASIS NET ASSETS  
ENTERPRISE FUND ACCOUNTS

Year ended June 30, 2012

	General	Customer Deposit	Debt Service	Improve- ment	Bond	Total
OPERATING DISBURSEMENTS (continued) -						
Business type activities (continued) -						
Water (continued) -						
Accounting and collection -						
Salaries	\$ 86,458	\$ -	\$ -	\$ -	\$ -	\$ 86,458
Meter reading	5,259	-	-	-	-	5,259
Office supplies	4,160	-	-	-	-	4,160
Sales tax	54,671	-	-	-	-	54,671
Postage	8,727	-	-	-	-	8,727
Telephone	2,649	-	-	-	-	2,649
Utilities	2,906	-	-	-	-	2,906
Miscellaneous and safety	4,906	-	-	-	-	4,906
	169,736	-	-	-	-	169,736
Administration and other expenses -						
Engineering and legal	8,713	-	-	-	-	8,713
Employee benefits	159,899	-	-	-	-	159,899
Audit and filing fee	4,425	-	-	-	-	4,425
Miscellaneous and safety	19,637	-	-	-	-	19,637
Building expense	2,408	-	-	-	-	2,408
Customer deposits	-	8,931	-	-	-	8,931
	195,082	8,931	-	-	-	204,013
Capital improvements -						
Materials	7,901	-	-	-	-	7,901
Meters	35,792	-	-	-	-	35,792
Office equipment	700	-	-	-	-	700
Lake improvements	410	-	-	-	-	410
	44,803	-	-	-	-	44,803
Total operating disbursements	972,079	8,931	-	-	-	981,010
Excess of operating receipts over operating disbursements	274,406	1,619	-	-	-	276,025

CHARITON MUNICIPAL WATERWORKS

Schedule 1 (continued)

COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BASIS NET ASSETS  
ENTERPRISE FUND ACCOUNTS

Year ended June 30, 2012

	General	Customer Deposit	Debt Service	Improve - ment	Bond	Total
NON-OPERATING RECEIPTS (DISBURSEMENTS):						
Interest on investments	\$ 655	\$ -	\$ -	\$ 3,030	\$ 528	\$ 4,213
Rent	9,460	-	-	-	-	9,460
Miscellaneous -						
Sewer rental and storm sewer collections	677,964	-	-	-	-	677,964
Sewer rental and storm sewer fee disbursed to City	(678,054)	-	-	-	-	(678,054)
Debt service -						
Principal redemption	-	-	(162,000)	-	-	(162,000)
Interest paid	-	-	(40,232)	-	-	(40,232)
Service fees	-	-	(1,553)	-	-	(1,553)
Capital projects	(201,942)	-	-	-	-	(201,942)
Total non-operating receipts (disbursements)	(191,917)	-	(203,785)	3,030	528	(392,144)
Excess (deficiency) of receipts over (under) disbursements	82,489	1,619	(203,785)	3,030	528	(116,119)
Operating transfers in (out)	(60,459)	-	203,910	19,857	(163,308)	-
Net change in cash basis net assets	22,030	1,619	125	22,887	(162,780)	(116,119)
Cash basis net assets, beginning of year	284,383	93,473	125,460	313,973	189,850	1,007,139
Cash basis net assets, end of year	\$ 306,413	\$ 95,092	\$ 125,585	\$ 336,860	\$ 27,070	\$ 891,020

See accompanying independent auditor's report.

CHARITON MUNICIPAL WATERWORKS

Schedule 2

SCHEDULE OF INDEBTEDNESS

Year ended June 30, 2012

Obligation	Date of Issue	Interest Rate	Amount Originally Issued
Water Revenue Bonds	08-07-06	3.00%	\$ 800,000
Water Revenue Improvement and Refunding Bonds	10-29-09	1.30%-3.40%	1,085,000

Date of Issue	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
08-07-06	\$ 621,000	\$ -	\$ 37,000	\$ 584,000	\$ 18,630	\$ -
10-29-09	835,000	-	125,000	710,000	21,602	-
Total	<u>\$ 1,456,000</u>	<u>\$ -</u>	<u>\$ 162,000</u>	<u>\$ 1,294,000</u>	<u>\$ 40,232</u>	<u>\$ -</u>

See accompanying independent auditor's report.



CHARITON MUNICIPAL WATERWORKS

Schedule 3

BOND MATURITIES

June 30, 2012

Year Ending June 30,	Water Revenue Bonds		Water Revenue Improvement and Refunding Bonds		Total
	Issued August 7, 2006		Issued October 29, 2009		
	Interest Rates	Amount	Interest Rates	Amount	
2013	3.00%	\$ 38,000	2.00%	\$ 130,000	\$ 168,000
2014	3.00%	38,000	2.30%	110,000	148,000
2015	3.00%	39,000	2.60%	110,000	149,000
2016	3.00%	40,000	2.90%	115,000	155,000
2017	3.00%	40,000	3.20%	120,000	160,000
2018	3.00%	41,000	3.40%	125,000	166,000
2019	3.00%	41,000	-	-	41,000
2020	3.00%	42,000	-	-	42,000
2021	3.00%	43,000	-	-	43,000
2022	3.00%	43,000	-	-	43,000
2023	3.00%	44,000	-	-	44,000
2024	3.00%	45,000	-	-	45,000
2025	3.00%	45,000	-	-	45,000
2026	3.00%	45,000	-	-	45,000
		\$ 584,000		\$ 710,000	\$ 1,294,000

See accompanying independent auditor's report.

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Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of a Financial Statement Performed in Accordance  
with Government Auditing Standards

To the Board of Trustees of the  
Chariton Municipal Waterworks:

We have audited the accompanying financial statement of the Chariton Municipal Waterworks, Chariton, Iowa, as of and for the year ended June 30, 2012, and have issued our report thereon dated February 18, 2013. Our report expressed an unqualified opinion on the financial statement which was prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of Chariton Municipal Waterworks is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Chariton Municipal Waterworks internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of Chariton Municipal Waterworks internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Chariton Municipal Waterworks internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be a material weaknesses and another deficiency we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of Chariton Municipal Waterworks financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items (A) and (B) to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings as item (C) to be a significant deficiency.

## Compliance and Other Matters

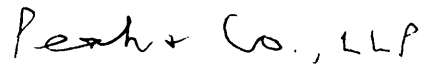
As part of obtaining reasonable assurance about whether the Chariton Municipal Waterworks financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Waterworks operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of the Waterworks. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Chariton Municipal Waterworks responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Waterworks responses, we did not audit Chariton Municipal Waterworks responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended for the information and use of the officials, employees and citizens of the Chariton Municipal Waterworks and other parties to whom the Chariton Municipal Waterworks may report, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Chariton Municipal Waterworks during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Peak & Co., LLP  
Certified Public Accountants

February 18, 2013

# CHARITON MUNICIPAL WATERWORKS

## SCHEDULE OF FINDINGS

Year ended June 30, 2012

### **Findings Related to the Financial Statement:**

#### **INTERNAL CONTROL DEFICIENCIES:**

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The issuance of receipt slips, bank deposits and the posting of the cash receipts to the accounting records are sometimes all done by the same person. Also, some bank accounts are not reconciled by an individual who does not sign checks, handle or record cash. Mail is opened by accounting personnel with access to the accounting records. In addition, the duties for maintaining accounts receivable are not separate from those of processing collections and deposits.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the Waterworks should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including appointed officials.

Response – We will consider this.

Conclusion – Response acknowledged. The Waterworks could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- (B) Financial Reporting – We noted that while management is capable of preparing accurate financial statements that provide information sufficient for the Board of Trustee members to make management decisions, reporting financial data reliably in accordance with an other comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Recommendation – Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare and take responsibility for reliable OCBOA financial statements.

Response – The management officials will attempt to read relevant accounting literature and attend professional education courses to improve in the ability to apply accounting principles.

Conclusion – Response accepted.

- (C) Reconciliation of Utility Billings, Collections and Delinquencies – For one month, utility billings, collections and delinquencies were not reconciled.

Recommendation – Procedures should be implemented to reconcile utility billings, collections and delinquent accounts each billing period. The Waterworks board or the Waterworks-designated independent person should review the reconciliations and monitor delinquencies.

CHARITON MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2012

Response – We performed this procedure for eleven months during the fiscal year. However, in the month this was not done we were having computer and printer problems, and we were unable to reconcile the records for the month in question because we were unable to retrieve or print the data needed.

Conclusion – Response accepted.

**INSTANCES OF NONCOMPLIANCE:**

No matters were reported.

# CHARITON MUNICIPAL WATERWORKS

## SCHEDULE OF FINDINGS

Year ended June 30, 2012

### **Other Findings Related to Required Statutory Reporting:**

- (1) Certified Budget - The budget certified by the City of Chariton includes amounts budgeted for the Chariton Municipal Waterworks. Disbursements during the year ended June 30, 2012, did not exceed the amounts budgeted.
- (2) Questionable Disbursements - Certain disbursements which may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

Paid to	Purpose	Amount
Cater 2 U	Awards banquet for employees, board members, and spouses	\$ 420
Hy-Vee	Gift cards for employees	\$ 450

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and improper purpose is very thin.

In addition, according to IRS Publication 15-B and Publication 535, the gift cards given to some Waterworks employees would be considered a taxable event, subject to income and employment taxes. However, the Waterworks did not include the value of gift cards as income to the employee or withhold taxes, as required.

Recommendation – The Waterworks should determine and document the public purpose served by these disbursements before authorizing any further payments. If these disbursements are continued, the Waterworks should establish written policies and procedures, including the requirement for proper documentation. In addition, in the future, all employee taxable compensation, including the value of gift cards given to employees, should be included in the employees income and be subject to applicable payroll taxes.

Response – We will review this issue.

Conclusion – Response accepted.

- (3) Travel Expense - No expenditures of Waterworks money for travel expenses of spouses of Waterworks officials or employees were noted.

CHARITON MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2012

- (4) Business Transactions - Business transactions between the Waterworks and Waterworks officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Mark Savage, Employee, Son owns Savage Dirt Works	Hauling	\$ 4,505

In accordance with Chapter 362 of the Code of Iowa, the above transactions with the owner of Savage Dirt Works does not appear to represent a conflict of interest since the amount paid to this business was procured through sealed competitive bids.

- (5) Bond Coverage - Surety bond coverage of Waterworks officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- (6) Board of Trustee Minutes - Transactions were found that we believe should have been approved in the trustee minutes but was not. Several claims were not documented as approved in the trustee minutes, nor were the claim amounts published in the newspaper, as required by Chapter 388.4 of the Code of Iowa.

The Waterworks went into closed session on May 14, 2012. The reason for the closed session, by reference to a specific Code Section, referred to a non-existent Code Section. Reference to a specific Code Section for a closed session is required by Chapter 21 of the Code of Iowa.

Recommendation - The Waterworks implement procedures to ensure all claims, including the related claim amounts, are published in the newspaper, as required by the Code of Iowa. In addition, the Waterworks should comply with Chapter 21 of the Code of Iowa in regards to closed session documentation.

Response – We will implement this recommendation.

Conclusion - Response accepted.

- (7) Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Waterworks investment policy were noted.
- (8) Revenue Notes and Bonds - No instances of non-compliance with the water revenue note and bond resolutions were noted.
- (9) Delinquent Accounts – The Waterworks has not turned over delinquent accounts to the County Treasurer in several years.

Recommendation – The Waterworks consider turning over delinquent accounts to the County Treasurer for collection.

Response – We will look into this in the future.

Conclusion – Response accepted.